

**JOHNSON COUNTY EMERGENCY COMMUNICATIONS
DISTRICT 911**

Mountain City, Tennessee

FINANCIAL STATEMENTS

For the Twelve Month Period Ended

June 30, 2011

(Independent Auditors' Report Thereon)

JOHNSON COUNTY EMERGENCY

COMMUNICATIONS DISTRICT 911

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JOHNSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT 911

December 20, 2011

To the Johnson County E 911 Board Members

This report consists of management's representations concerning the finances of the Johnson County Emergency Communications District 911. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Organization has established a comprehensive internal control framework that is designed both to protect the Organization's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Organization's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Organization's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Organization's financial statements have been audited by Eddy & Eddy, CPA's, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Organization for the fiscal year ended June 30, 2011 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Organization's financial statements for the fiscal year ended June 30, 2011 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Organization's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The Organization was created under the authority of Title 7, Chapter 86, Tennessee Code Annotated. The Organization is dedicated to providing emergency communications for the purposes of enhancing “911” and selective routing services.

The Organization operates under the board-director form of government. The board is responsible, among other things, for adopting the budget, and for carrying out the policies of the board, and for overseeing the day-to-day operations of the Organization.

Respectfully submitted,

A handwritten signature in cursive script, reading "Eugene Conhill", is written over a solid horizontal line.

Director

JOHNSON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT 911

BOARD MEMBERS
As of June 30, 2011

Chairman	Randy Stewart
Vice Chair	Janet Wilson
Secretary	Willie DeBord
Other Board Members	Bob Graybeal Jack Greer Gene Hackney Bob Morrison Tom Taylor Jason Blevins

MANAGEMENT OFFICIALS
As of June 30, 2011

Director	Eugene Campbell
Assistant Director	Michelle Arney

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Johnson County Emergency Communications District 911's annual financial report presents our discussion and analysis of the Organization's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the transmittal letter at the front of this report and the Organization's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Organization's total net assets increased by \$42,255 during the fiscal year. However, the invested in capital assets decreased by \$37,907.
- During the year, the Organization's expenses were \$42,255 less than the \$484,533 generated in revenues. Last fiscal year revenues exceeded expenses by \$55,820.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information and supplementary information.

The basic financial statements of the Organization are proprietary fund statements. Proprietary fund statements offer short- and long-term financial information about activities that operate like a business.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 summarizes the major features of the Organization's financial statements, including the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Figure A-1
Major Features of the Organization's Fund Financial Statements

	Fund Statements
	Proprietary Funds
Scope	Activities the Organization operates similar to private businesses
Required financial statements	Statement of net assets Statement of revenues, expenses, and changes in net assets Statement of cash flows Budgetary comparison schedule
Accounting basis and measurement focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid

Fund Financial Statements

The fund financial statements provide detailed information about the Organization.

- Proprietary funds-Services for which the Organization charges customers a fee are generally reported in proprietary funds. Proprietary funds provide both long- and short-term financial information.

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Net assets. The Organization's combined net assets increased \$42,255 between fiscal years 2010 and 2011 with an ending balance of \$891,308. (See Table A-1.) In comparison, last year net assets increased \$55,820.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Table A-1
Johnson County Emergency Communications District 911 Net Assets

			<u>Total Percentage Change</u>
	2010	2011	
Current and other assets	\$ 678,289	\$ 778,818	14.8%
Capital assets	180,262	142,355	-21.0%
Total assets	858,551	921,173	7.3%
Long-term debt outstanding	-	-	
Other liabilities	9,498	29,865	214.4%
Total liabilities	9,498	29,865	214.4%
Net assets			
Invested in capital assets	180,262	142,355	-21.0%
Unrestricted	668,791	748,953	12.0%
Total net assets	\$ 849,053	\$ 891,308	5.0%

Net assets of the Organization increased almost 5 percent to \$891,308. However, some of those net assets are invested in capital assets (buildings, equipment, office equipment, and so on). Consequently, unrestricted net assets showed an \$80,162 increase at the end of this year while net assets invested in capital assets decreased \$37,907.

Changes in net assets. The Organization's total revenues increased by more than 4 percent to \$484,533. (See Table A-2.) More than two percent of the Organization's revenue is from governmental grants and reimbursements. Almost 40 percent of the Organization's revenue comes from E-911 charges and shared wireless surcharges. Contributions from other governments represented almost 23 percent of the Organization's revenue. The remainder comes from investment income, alarm monitoring, and other operating and nonoperating revenue.

The total cost of all services increased approximately \$35,592, or about 9 percent. This increase resulted from sick pay, pay raises, and increased maintenance and repair costs. The Organization's expenses cover a range of services with about 59 percent related to director/dispatcher expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Table A-2
Changes in Organization's Net Assets

	2010	2011	Total percentage change 2010-2011
Revenues			
Emergency Telephone Service	\$161,938	\$154,433	-4.6%
TECB - Operational Funding	139,144	158,306	13.8%
State EMS - Shared Charges	27,566	38,158	38.4%
Alarm Monitoring	-	-	-
Other Operating Revenues	1,800	1,800	0.0%
Governmental Grants and Reimbursements	10,623	10,000	-5.9%
Contributions from Other Governments	111,000	111,000	0.0%
Gain (Loss) on Disposal of Assets	-	-	-
Miscellaneous Income	472	770	63.1%
Interest Income	9,963	9,626	-3.4%
Insurance Reimbursements	-	440	-
Total revenues	<u>\$ 462,506</u>	<u>\$484,533</u>	4.8%
Expenses			
Director/Dispatcher	230,641	262,574	13.8%
Health, Life, Dental Insurance	27,974	28,937	3.4%
Retirement	17,658	19,279	9.2%
Data Processing Services	-	-	-
Advertising	800	800	0.0%
Insurance	6,185	6,195	0.2%
Office Expense	2,414	2,156	-10.7%
Dues & Subscriptions	650	650	0.0%
Professional Fees	10,050	8,705	-13.4%
Communications	31,838	30,699	-3.6%
Repairs & Maintenance	20,125	28,569	42.0%
Training	1,594	676	-57.6%
Travel	795	2,828	255.7%
Vehicle Expense	1,334	1,974	48.0%
Depreciation	40,584	41,168	1.4%
Bad Debts	-	-	-
Other	14,044	7,068	-49.7%
Total Expenses	<u>406,686</u>	<u>442,278</u>	8.8%
Increase (Decrease) in Net Assets	<u>\$ 55,820</u>	<u>\$ 42,255</u>	-24.3%

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011 the Organization had invested \$142,355 in capital assets, including land, equipment, and building. This amount represents a net decrease (including additions and deductions) of \$37,907 or about 21 percent over last year.

Long-term Debt

During the fiscal year ended June 30, 2011, the Organization had no long-term debt.

CONTACTING THE ORGANIZATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Organization's finances and to demonstrate the Organization's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Johnson County Emergency Communications District 911, 999 Honeysuckle Street, Mountain City, TN 37683.



Eddy & Eddy

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TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

Member of
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Johnson County Emergency Communications District 911
Mountain City, Tennessee

We have audited the accompanying statement of net assets of the Johnson County Emergency Communications District 911, a component unit of Johnson County, Tennessee, and the related statements of revenues, expenses, and changes in net assets and cash flows as of and for the year ended June 30, 2011, which collectively comprise the Organization's financial statements as listed in the table of contents. These financial statements are the responsibility of Johnson County Emergency Communications District 911's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

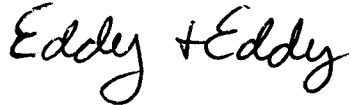
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Johnson County Emergency Communications District 911, as of June 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2011, on our consideration of the Johnson County Emergency Communications District 911's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress – employee retirement system on pages 4 through 8 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and

other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph taken as a whole. The introductory section and budgetary comparison schedule are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory section and budgetary comparison schedule have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Eddy & Eddy". The script is cursive and fluid, with the ampersand being a simple cross.

Eddy & Eddy, CPAs, P. C.

Johnson City, Tennessee
December 20, 2011

**JOHNSON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT 911
Statement of Net Assets
June 30, 2011**

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 564,042
Accounts Receivable, net	13,281
Investments	<u>201,495</u>
Total Current Assets	<u>778,818</u>
Noncurrent Assets:	
Capital Assets:	
Land	4,767
Building	70,822
Furniture and Fixtures	5,590
Office Equipment	15,402
Communications Equipment	270,644
Vehicles	22,366
Less Accumulated Depreciation	<u>(247,236)</u>
Total Noncurrent Assets	<u>142,355</u>
Total Assets	<u>921,173</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	693
Accrued Payroll	5,304
Accrued Payroll Taxes	516
Accrued Compensated Absences - Current Portion	<u>1,678</u>
Total Current Liabilities	<u>8,191</u>
Noncurrent Liabilities:	
Accrued Compensated Absences - Long-Term Portion	<u>21,674</u>
Total Noncurrent Liabilities	<u>21,674</u>
Total Liabilities	<u>29,865</u>

NET ASSETS

Invested in Capital Assets	142,355
Unrestricted	<u>748,953</u>
Total Net Assets	<u>\$ 891,308</u>

See accompanying notes to financial statements.

**JOHNSON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT 911
Statement of Revenues,
Expenses and Changes in Net Assets
For the Year Ended June 30, 2011**

OPERATING REVENUES

Emergency Telephone Service	\$ 154,433
TECB - Operational Funding	158,306
State EMS - Shared Charges	38,158
Other Operating Revenues	<u>1,800</u>
Total Operating Revenues	<u>352,697</u>

OPERATING EXPENSES

Executive Director Salary	28,538
Dispatchers	192,745
Bonuses	2,436
Sick Pay	21,674
Social Security	16,844
Life Insurance	431
Medical Insurance	28,506
Unemployment Compensation (Taxes)	337
Retirement Contributions (TCRS)	11,479
ING Retirement	7,800
Advertising	800
Audit Services	6,900
Accounting Services	1,805
Telephone PSAP	23,131
Maintenance Agreements	24,212
Maintenance & Repairs-Communication Equipment	3,357
Maintenance & Repairs-Office Equipment	1,000
Maintenance & Repairs-Vehicles	1,974
Office Supplies	1,866
Custodial Supplies	100
Postage	190
Utilities-General Telephone	7,568
Dues and Memberships	650
Insurance-Workers Compensation	1,053
Insurance-Liability	4,548
Insurance-Vehicles	594
Licenses and Fees	374
Premiums on Surety Bonds	560
Public Education	500
Training Expenses	676
Travel Expenses	2,828
Other Operational Expense	5,634
Depreciation	<u>41,168</u>
Total Operating Expenses	<u>442,278</u>
Operating Income (Loss)	<u>(89,581)</u>

See accompanying notes to financial statements.

**JOHNSON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT 911
Statement of Revenues,
Expenses and Changes in Net Assets
For the Year Ended June 30, 2011**

NON-OPERATING REVENUES

Government Grants and Reimbursements Income	10,000
Miscellaneous Income	770
Contributions from Other Governments	111,000
Interest Income	9,626
Insurance Reimbursements	<u>440</u>
Total Non-Operating Revenues	<u>131,836</u>
Change in Net Assets	42,255
Net Assets - Beginning of the Year	<u>849,053</u>
Net Assets - End of the Year	<u><u>\$ 891,308</u></u>

See accompanying notes to financial statements.

**JOHNSON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT 911
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 352,029
Cash payments to employees for services	(223,506)
Cash payments to suppliers for goods and services	<u>(157,236)</u>
Net cash provided (used) by operating activities	<u>(28,713)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Grants and reimbursements received	10,000
Contributions from other governments	111,000
Miscellaneous Income	770
Insurance Reimbursements	<u>440</u>
Net cash provided (used) by noncapital financing activities	<u>122,210</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	<u>(3,261)</u>
Net cash provided (used) for capital and related financing activities	<u>(3,261)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest and dividends on investments	9,626
Interest and dividends reinvested	<u>(2,532)</u>
Net cash provided (used) by investing activities	<u>7,094</u>

Net increase (decrease) in cash and cash equivalents 97,330

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD 466,712

CASH AND CASH EQUIVALENTS AT END OF PERIOD \$ 564,042

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities

Operating Income (Loss)	\$ (89,581)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	41,168
Change in assets and liabilities:	
Increase in accounts receivable	(668)
Decrease in accounts payable	(1,500)
Decrease in accrued payroll taxes	(20)
Increase in accrued payroll and compensated absences	<u>21,888</u>
Net cash provided (used) by operating activities	<u><u>\$ (28,713)</u></u>

See accompanying notes to financial statements.

JOHNSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT 911
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The proprietary fund's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Organization's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Organization had the option of following or not following FASB pronouncements or APB opinions issued after November 30, 1989. The Organization opted to not follow FASB pronouncements or APB Opinions issued after November 30, 1989.

Nature of Activities

The Johnson County Emergency Communications District 911 is an agency dedicated to providing emergency communications for the purposes of enhancing "911" and selective routing services.

Basis of Accounting

The financial statements of the Organization are reported using the accrual basis of accounting. In the accrual basis of accounting, revenues are generally recognized when earned and expenses recognized when incurred.

Financial Statement Presentation

The operations of the Organization are accounted for in a proprietary fund. Proprietary funds are reported using a flow of economic resources measurement focus and the accrual basis of accounting. This is the same measurement focus and basis of accounting used by private business enterprises.

Budgetary Control

The Communications District establishes the fiscal year as the twelve-month period beginning July 1. Upon receipt of the budget prepared by the budget committee, the Board of Directors holds a first reading on the budget. Information about the budget is considered public record. The second reading is scheduled three to four weeks after the first reading is approved. The budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures should not exceed the amount budgeted. Revisions can be made throughout the year with the Board's approval.

JOHNSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT 911
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid investments with an initial maturity of three months or less, cash on hand, and all cash accounts which are not subject to withdrawal restrictions or penalties.

Property and Equipment

Property and equipment are stated at cost, or in the case of contributed assets, at their fair value at the time of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The Organization's capitalization policy is to capitalize office and communication equipment costing \$1,000 or more and to capitalize any amount for vehicles, building, or land.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Advertising

The Organization expenses advertising costs as incurred. Total advertising expense for the year ended June 30, 2011 amounted to \$800.

NOTE 2. PROPERTY AND EQUIPMENT

Property and equipment are carried at cost, or in the case of contributed assets, at their fair market value at the time of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Buildings are depreciated over forty (40) years; vehicles, furniture and equipment are depreciated between five (5) to ten (10) years. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Depreciation expense at June 30, 2011 amounted to \$41,168.

JOHNSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT 911
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. PROPERTY AND EQUIPMENT (Continued)

Property and equipment are composed of the following:

	Capital Assets, Not Depreciated		Capital Assets, Depreciated				Totals
	Land	Building	Furniture and Fixtures	Office Equipment	Communi- cations Equipment	Vehicles	
Balance June 30, 2010	\$ 4,767	\$ 70,822	\$ 5,590	\$ 17,374	\$ 269,081	\$ 22,366	\$390,000
Increases	-	-	-	1,299	1,962	-	3,261
Decreases	-	-	-	(3,271)	(399)	-	(3,670)
Balance June 30, 2011	<u>\$ 4,767</u>	<u>\$ 70,822</u>	<u>\$ 5,590</u>	<u>\$ 15,402</u>	<u>\$ 270,644</u>	<u>\$ 22,366</u>	<u>\$389,591</u>
Accumulated Depreciation:							
Balance June 30, 2010	\$ -	\$ 28,153	\$ 4,089	\$ 9,487	\$ 154,606	\$ 13,403	\$209,738
Increases	-	2,391	453	1,712	31,525	5,087	41,168
Decreases	-	-	-	(3,271)	(399)	-	(3,670)
Balance June 30, 2011	<u>\$ -</u>	<u>\$ 30,544</u>	<u>\$ 4,542</u>	<u>\$ 7,928</u>	<u>\$ 185,732</u>	<u>\$ 18,490</u>	<u>\$247,236</u>
Capital Assets, Net	<u>\$ 4,767</u>	<u>\$ 40,278</u>	<u>\$ 1,048</u>	<u>\$ 7,474</u>	<u>\$ 84,912</u>	<u>\$ 3,876</u>	<u>\$142,355</u>

NOTE 3. ACCOUNTS RECEIVABLE

The Organization's accounts receivable at June 30, 2011 is comprised of \$13,281 from E 911 surcharges.

NOTE 4. COMPONENT UNITS

Johnson County Emergency Communications District 911 is a component unit of Johnson County, Tennessee. Johnson County, Tennessee is the primary government and exercises influence. Positions on the board of the Johnson County Emergency Communications District 911 are appointed by the primary government. The primary government controls the borrowing power of the Johnson County Emergency Communications District 911 and sets the rate for the E-911 surcharge income.

NOTE 5. RISK MANAGEMENT

Significant losses are covered by commercial insurance for all major programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

JOHNSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT 911
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2011 consist of the following:

Balance at June 30:	2011
Cash - Checking	\$ 313,296
Cash - Savings	<u>250,746</u>
Cash and Cash Equivalents	<u>\$ 564,042</u>

The Organization maintains deposit accounts at commercial banks in Mountain City, Tennessee. The Board has adopted the State of Tennessee's investment policy.

Various restrictions on deposits are imposed by state statutes. All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the Organization.

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. The Organization does not have a policy related to such risk. At June 30, 2011, the carrying amount of the Organization's deposits was \$765,538, and the bank balance was \$765,662. As of June 30, 2011, \$162,990 of the bank balance of \$765,538 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 162,990
Total	<u>\$ 162,990</u>

JOHNSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT 911
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7. INVESTMENTS

Investments as of June 30, 2011 consist of the following:

	Cost 2011	Fair Value 2011	Carrying Value 2011
Balance at June 30:			
Certificates of Deposit	\$ 201,495	\$ 201,495	\$ 201,495
Investments	<u>\$ 201,495</u>	<u>\$ 201,495</u>	<u>\$ 201,495</u>

State statutes authorize the Organization to invest in treasury bonds, notes or bills of the United States; nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the State Loan Marketing Association; other obligations not listed above which are guaranteed as to principal and interest by the United States or any of its agencies; obligations of the United States or its agencies under a repurchase agreement and money market funds whose portfolios consist of any of the foregoing investments if approved by the State Director of Local Finance and made in accordance with procedures established by the State Funding Board; the State of Tennessee Local Government Investment Pool; obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority. The Organization has adopted the State of Tennessee's investment policy regarding authorized investments.

NOTE 8. OPERATING/NONOPERATING DISTINCTION

The Organization distinguishes operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with the Organization's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

NOTE 9. ING RETIREMENT PLAN

The Organization has a 457(b) deferred compensation plan. The Organization matches participating employee contributions in a four to one ratio. The Organization's matching amount at June 30, 2011 amounted to \$7,800, as reflected on the statement of revenues, expenses, and changes in net assets.

JOHNSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT 911
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10. TCRS RETIREMENT PLAN

Plan Description

Employees of Johnson County 911 ECD are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Johnson County 911 ECD participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

Johnson County 911 ECD requires employees to contribute 5.0 percent of earnable compensation.

Johnson County 911 ECD is required to contribute at an actuarially determined rate; the rate for fiscal year ending June 30, 2011 was 6.32% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Johnson County 911 ECD is established and may be amended by the TCRS Board of Trustees.

JOHNSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT 911
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10. TCRS RETIREMENT PLAN (Continued)

Annual Pension Cost

For the year ending June 30, 2011, Johnson County 911 ECD's annual pension cost of \$11,479 to TCRS was equal to Johnson County 911 ECD's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Johnson County 911 ECD's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 13 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$11,479	100.00%	\$0.00
June 30, 2010	\$10,143	100.00%	\$0.00
June 30, 2009	\$ 9,740	100.00%	\$0.00

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 66.54% percent funded. The actuarial accrued liability for benefits was \$0.1 million, and the actuarial value of assets was \$0.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.1 million, and the ratio of the UAAL to the covered payroll was 43.01% percent.

JOHNSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT 911
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10. TCRS RETIREMENT PLAN (Continued)

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a) / (b)	(c)	((b) - (a)) / (c)
July 1, 2009	\$81	\$122	\$41	66.54%	\$95	43.01%
July 1, 2007	\$55	\$ 82	\$27	67.07%	\$113	23.89%

NOTE 11. LEASES

On November 26, 2003, the Organization entered into a 15-year lease, renewable for an additional 15 years, with Johnson County, Tennessee, for a room in the Johnson County Jail facility. Annual rent of \$1 is due each December 1, beginning December 1, 2003.

On November 18, 2004, the Organization leased its property located at 158 Nine One One Avenue, Mountain City, Tennessee, to Johnson County for 15 years beginning December 1, 2004, with options to renew for annual terms. Annual rent of \$1 is due each December 1, beginning December 1, 2004.

JOHNSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT 911
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12. LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

The following summarizes long-term liability activity of the Organization for the year ended June 30, 2011.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sick Pay	\$ -	21,674	-	\$ 21,674	\$ -

NOTE 13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 20, 2011, which is the date the financial statements were available to be issued.

JOHNSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT 911
Schedule of Funding Progress - Employee Retirement System

Johnson County Emergency Communications District 911 Employees' Pension Plan

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2009	\$ 81	\$ 122	\$ 41	66.54%	\$ 95	43.01%
July 1, 2007	\$ 55	\$ 82	\$ 27	67.07%	\$ 113	23.89%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the schedule of funding progress using the entry age actuarial cost method. The requirement to present the schedule of funding progress using the entry age actuarial cost method went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

See independent auditors' report.

**JOHNSON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT 911
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2011**

Unaudited

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 38,629	\$ 381,029	\$ 381,029	\$ -
Resources (Inflows):				
OPERATING REVENUES:				
Emergency Telephone Service	165,000	154,314	154,433	119
TECB - Operational Funding	47,597	126,507	158,306	31,799
State EMS - Shared Charges	39,000	39,000	38,158	(842)
Other Operating Revenues	1,800	1,800	1,800	-
Total Operating Revenues	253,397	321,621	352,697	31,076
NON-OPERATING REVENUES:				
Grant Income	10,000	20,000	10,000	(10,000)
Contributions from Other Governments	111,000	111,000	111,000	-
Interest Income	7,000	7,000	9,626	2,626
Insurance Reimbursement	-	-	440	440
Miscellaneous Income	-	-	770	770
Total Non-Operating Revenues	128,000	138,000	131,836	(6,164)
Amounts available for appropriation	420,026	840,650	865,562	24,912
Charges to Appropriations (Outflows):				
OPERATING EXPENSES:				
Executive Director Salary	\$ 28,420	\$ 28,420	\$ 28,538	\$ (118)
Dispatchers	188,500	192,623	192,745	(122)
Bonuses	-	-	2,436	(2,436)
Sick Pay	-	-	21,674	(21,674)
Social Security	16,900	16,900	16,844	56
Medicare	4,400	4,400	-	4,400
Life Insurance	500	500	431	69
Medical Insurance	33,600	33,600	28,506	5,094
Unemployment Compensation (Taxes)	650	650	337	313
Retirement Contributions (TCRS)	9,600	11,704	11,479	225
ING Retirement	8,520	8,520	7,800	720
Advertising	800	800	800	-
Audit Services	6,900	6,900	6,900	-
Accounting Services	2,550	2,550	1,805	745
Telephone PSAP	25,000	25,000	23,131	1,869
Legal Services	500	500	-	500

See accompanying notes to financial statements.

**JOHNSON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT 911
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2011**

Unaudited

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Maintenance Agreements	25,000	23,935	24,212	(277)
Maintenance & Repairs-Communication Equipment	2,500	3,201	3,357	(156)
Maintenance & Repairs-Office Equipment	1,000	1,000	1,000	-
Maintenance & Repairs-Vehicles	2,000	2,000	1,974	26
Office Supplies	2,000	2,000	1,866	134
Custodial Supplies	100	100	100	-
Postage	200	200	190	10
Utilities-General Telephone	8,000	8,000	7,568	432
Dues and Memberships	650	650	650	-
Insurance-Workers Compensation	1,950	1,950	1,053	897
Insurance-Liability	4,900	4,900	4,548	352
Insurance-Vehicles	600	600	594	6
Licenses and Fees	375	375	374	1
Premiums on Surety Bonds	560	560	560	-
Public Education	500	500	500	-
Training Expenses	2,000	3,065	676	2,389
Travel Expenses	3,500	3,500	2,828	672
Other Operational Expense	5,000	5,000	5,634	(634)
Total Operating Expenses	387,675	394,603	401,110	(6,507)
Total Charges to Appropriations	387,675	394,603	401,110	(6,507)
Ending Budgetary Fund Balance	\$ 32,351	\$ 446,047	\$ 464,452	\$ 18,405

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" \$ 865,562
Differences - budget to GAAP:

The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes. (381,029)
Total revenues as reported on the statement of revenues, expenses and changes in net assets \$ 484,533

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" \$ 401,110
Differences - budget to GAAP:
Depreciation is not a budgetary outflow of resources but is a current-year expense for financial reporting purposes. 41,168
Total expenses as reported on the statement of revenues, expenses and changes in net assets \$ 442,278

See accompanying notes to financial statements.



Eddy & Eddy

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARD**

To the Board of Directors
Johnson County Emergency Communications District 911
Mountain City, Tennessee

We have audited the financial statements of the Johnson County Emergency Communications District 911, a component unit of Johnson County, Tennessee, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnson County Emergency Communications District 911's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Johnson County Emergency Communications District 911's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Johnson County Emergency Communications District 911's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying schedule of findings and responses to be a material weakness: Finding 2011-01.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: Finding 2011-02.

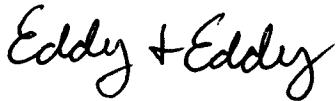
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Johnson County Emergency Communications District 911's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Johnson County Emergency Communications District 911 in a separate letter dated December 20, 2011.

The Johnson County Emergency Communications District 911's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Johnson County Emergency Communications District 911's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Eddy & Eddy, CPAs, P.C.

Johnson City, Tennessee
December 20, 2011

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2011-01:

Criteria: Accrued sick pay should be recorded. Assets should be capitalized according to the Organization's capitalization policy. The auditors considered materiality to be \$16,000.

Condition: Before auditor proposed adjustments were made, the financial statements were materially misstated.

Effect: Total liabilities were understated by \$21,674 and expenses were understated by \$20,562.

Cause: Accrued sick pay was not recorded. Equipment meeting the Organization's capitalization policy was expensed.

Recommendation: We recommend accrued sick pay be recorded at year-end and assets meeting the Organization's capitalization policy be capitalized.

Views of Responsible Officials: Staff will follow the above recommendation.

Finding 2011-02: (Repeated from the prior year)

Criteria: Because of the small office staff, Board oversight of financial transactions is essential. Board oversight is not mitigated by the use of an outside bookkeeping firm.

Condition: As in the prior year, a lack of segregation of duties exists not mitigated by effective Board oversight. Forty nine out of sixty (82%) of cash disbursements test selections did not reflect evidence of Board review. Three out of sixty (5%) cash disbursement test selections reflected reviewer initials but not the date of review. Seven out of sixty (12%) cash disbursement test selections did not have supporting documentation. Bank documents examined reflected review initials but not the dates of review. Examination of payroll tax returns reflected three quarters (September 30, 2010, December 31, 2010, and March 31, 2011) of documents had "check dates" of April 25, 2011 along with review initials. The June 30, 2011 payroll tax returns only reflected a "check date" of July 18, 2011 – no review initials.

Effect: A lack of segregation of duties not mitigated by effective Board oversight increases fraud opportunities.

Cause: Board oversight was not documented, not performed, or not performed in a timely manner.

SCHEDULE OF FINDINGS AND RESPONSES CONTINUED

Recommendation: We recommend the Board member assigned oversight responsibilities perform those procedures in a timely manner. Bank documents should be reviewed within a sixty day window to ensure any bank errors will be corrected by the bank. Payroll tax returns should be reviewed before they are filed. Before disbursements are made, supporting documentation should be obtained. Invoices, receipts, journal entries, and budget spreadsheets should evidence Board review – review initials as well as review dates. The review dates should be distinguishable from the stamped date indicating when the document was received.

Views of Responsible Officials: Staff will follow the above recommendation.